

VZCZCXRO7449
RR RUEHPT
DE RUEHBY #0810/01 2460144
ZNR UUUUU ZZH
R 030144Z SEP 09
FM AMEMBASSY CANBERRA
TO RUEHC/SECSTATE WASHDC 1989
INFO RHEHAAA/WHITE HOUSE WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEHWL/AMEMBASSY WELLINGTON 0100
RUEHLO/AMEMBASSY LONDON 2120
RUEHKO/AMEMBASSY TOKYO 3673
RUEHBJ/AMEMBASSY BEIJING 9587
RUEHUL/AMEMBASSY SEOUL 9902
RUEHDN/AMCONSUL SYDNEY 4894
RUEHBN/AMCONSUL MELBOURNE 6640
RUEHPT/AMCONSUL PERTH 4905

UNCLAS SECTION 01 OF 02 CANBERRA 000810

SENSITIVE
SIPDIS

STATE FOR EAP/ANP

TAGS: [EFIN](#) [ETRD](#) [ECON](#) [AS](#)
SUBJECT: INTEREST RATES TO RISE, BUT NOT JUST YET

REF: CANBERRA 214

¶1. (SBU) SUMMARY: The Reserve Bank of Australia (RBA) decided on September 1st to keep interest rates unchanged at 3.0%. In its statement, the RBA upgraded global growth, financial markets, domestic demand, cut their unemployment forecast, increased their inflation forecast, and upgraded slightly investor willingness to take risk. It said the present low interest rates are appropriate only "for the time being," indicating a future rate rise, though neglecting to send signals as to how soon. The release on September 2nd of June quarter national accounts data, including a 0.6% growth rate, may suggest sooner rather than later. Australia's economic growth rate of 0.6% over the past year was highest in the OECD. A number of economic indicators also suggest strengthening growth for the rest of 2009. End summary.

June quarter national accounts released

¶2. (U) The release of national accounts data for the June quarter on September 2nd showed that the Australian economy grew by a seasonally-adjusted 0.6%, compared with 0.4% in the March quarter. This result surprised economists who had forecasted a modest rise of 0.2%.

Cautiously optimistic outlook

¶3. (U) In its September 1st statement, the RBA said that "economic conditions in Australia have been stronger than expected, with consumer spending, exports and business investment notable for their resilience." Regarding conditions outside of Australia, the RBA said "the global economy is resuming growth," and remarked that "growth in China has been very strong." While the RBA felt that sentiment in global financial markets has continued to improve, it cautioned against the remaining effects of "economic weaknesses on the balance sheets of financial institutions." RBA sees inflation holding in the near term but does not expect it to hold below the RBA target for long.

More exports but at lower prices

¶4. (U) Though the volume of exports increased, a 15.8% fall in export prices -- the biggest in the last 50 years, especially lower commodity prices throughout Australia's resource sector, such as iron ore -- contributed -0.5% to Australian GDP growth during the June quarter. Net exports contributed -0.3% to GDP in the quarter and led to an increased current account deficit of A\$13.4 billion,

which was larger than the market's expected A\$10 billion. As a result, Australia's terms of trade fell by a seasonally-adjusted 7.4%.

Continued signs of growth ahead

15. (U) Australia's economic growth rate of 0.6% over the past year was highest in the OECD. A number of economic indicators also suggest strengthening growth for the rest of 2009. Infrastructure projects and other programs from the GOA's stimulus package should help boost growth in the next two quarters of the year, reinforced by increased investment in the resources and energy sectors. If recovery takes hold in other major economies, it would improve demand for exports and improve Australia's terms of trade. Domestically, the housing sector is regaining momentum. Building approvals in July rose 7.7% (compared with economists' expectations of a 3.3%), supported by low mortgages rates and an expanded first home owners grant. Similarly, private business investment increased 1.9% in the June quarter.

Opposition criticizes stimulus as overspending

16. (SBU) The apparent conclusion that the "worst is over" in the Australian economic crisis has set the stage for attacks from the opposition accusing the government of overspending on a plan that according to them is bigger than necessary, thereby increasing government debt and overburdening future taxpayers with the bill.

CANBERRA 00000810 002 OF 002

The GOA has so far resisted the pressure to wind back some of its planned stimulus spending, saying that without it the country would find itself in a real recession and warning against the possibility of a "second shockwave."

17. (SBU) COMMENT: Thus far, the Rudd government can claim it successfully avoided a recession -- unlike every other developed economy in the world. The Rudd government will attribute the success to its stimulus package, while the opposition will opt for other reasons. But while Australia is technically managing to avoid a recession, the average Australian will continue to feel the effects of the crisis. For instance, real net national disposable income fell by a seasonally-adjusted 2.0% during the June quarter and unemployment rose, though more gradually than forecasted, as employers moderated labor costs and retained workers by reducing hours worked. Nevertheless, the economy's continued resilience, coupled with better-than-expected June growth data, may embolden opinions about an interest rate hike coming sooner rather than later. A few analysts are already forecasting that if there is no deterioration in the economy or the outlook over the next five weeks, the RBA could tighten interest rates as soon as the next meeting (6 October); most, however, are still reluctant to forecast anything before November.